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It is essential for Croatia to overcome the legacies of both Communism and Tadjmanism if it is to make progress domestically and internationally. Among these legacies are three factors that have a direct bearing on political developments as well as Croatia's economic progress: domestic corruption, organized criminality, and the destabilizing Hercegovinian connection.

Domestic Corruption: The system of patronage maintained under the previous regime, as a continuation of the old Communism cronyism, needs to be thoroughly investigated and curtailed if it cannot be fully terminated. Political loyalty cannot be the criteria for business contracts, financial loans, or other state benefits. The ties between state, party, and business must be broken and there are indications that the new government is committed to an overhaul of the corrupted system that it inherited. Recent arrests and investigations of certain officials and businessmen are a good starting point.

Corruption, nepotism, and patronage are damaging politically and economically as they stifle economic competition and a genuine free market. There must be clarity, openness, and public oversight over government activities in such areas as privatization and public spending. Indeed, the investigation of the financial acquisitions and business connections of some of the new HDZ millionaires will indicate to the public that the coalition government is serious about tackling the cancer of corruption. Openness in government will itself greatly assist in building public confidence. The contrast with the previous secretive HDZ administration must become apparent to citizens so that government is perceived as public property rather than as a private business concern.

Organized Criminality: During the past decade, government officials in Zagreb have tolerated and benefited from organized criminal activities within and across state borders. The smuggling of weapons during the battle for Croatia's independence was understandable and justifiable in the unequal fight against the Yugoslav army. However, the networks established at that time were in many cases transformed into illicit syndicates that have dealt with a whole array of criminal activity, from sanctions busting vis-à-vis Yugoslavia to car thefts, cigarette and drug smuggling, prostitution rackets, and people smuggling. Zagreb must now establish a concerted strategy with its neighbors to combat a phenomenon that not only contributes to regional and societal insecurity but also thwarts Croatia's progress toward economic development and European integration.

The Herceg Connection: The new Croatia can become an important fulcrum for stability in the Adriatic, Central European, and Balkan regions. By assuming a more prominent and constructive role, Zagreb can simultaneously help itself, assist its neighbors, and contribute to a more coherent and successful NATO-EU policy in the region. Throughout the Tadjman era, Croatia's relations with many of its neighbors were unnecessarily hostile. The HDZ leadership stoked conflicts with several bordering countries to reinforce its message that the ruling party was the only credible defender of Croatian statehood. In the case of Bosnia-Hercegovina, substantial progress can now be registered by the new Croatian administration. Zagreb has asserted that it will treat Bosnia as a sovereign state and terminate the previous government's policy of regarding

all ethnic Croats as Croatia's "internal affair." Zagreb's Bosnia policy must contain at least three key elements if it is to be constructive and effective.

First, an unconditional commitment to Bosnia's territorial and administrative integrity must be displayed at all political levels. While the central government in Zagreb can help strengthen the all-Bosnia national authorities, local and city governments can also provide support and assistance to their Bosnian counterparts.

Second, Croatia's concern for its ethnic kin cannot overshadow its relations with a non-threatening neighboring state. By forging closer ties with Sarajevo, the Racan administration should simultaneously undercut the dominant and destructive role of the HDZ organization inside Bosnia. Indeed, Bosnia's Croats must be offered a viable alternative to the separatist policies of a narrow clique of ultra-nationalists and profiteers who have also contributed to soiling Croatia's international image. With international assistance, Zagreb can help enlarge the democratic and liberal parties in Bosnia, contribute to creating a free press in western Hercegovina, and assist the struggling NGO sector in the Bosnian Federation. Instead of being perceived as a predatory force, Croatia can now prove its worth as a guarantor of Bosnian statehood.

Third, Zagreb must launch a concerted campaign with appropriate international backing, to eradicate the criminal networks operating across the Croatian-Bosnian border. Smugglers, money launderers, and an assortment of unsavory thugs formed the backbone of the Hercegovinian HDZ elite. They have not only stifled economic development and diverted funds and resources from the government in Sarajevo, they have also thwarted the consolidation of a sovereign Bosnian administration. Successful anti-crime initiatives inside Croatia will also have a positive impact on eliminating the criminal syndicates in Bosnia.

Conclusions: Economic Policy: The new authorities must openly inform the public about their economic policies and results. At the same time, officials must not raise expectations without being able to meet them. Citizens must be given a realistic appraisal of the economic predicament and the steps necessary to pull Croatia out of the doldrums. The tasks ahead on the domestic economic front are clear even though their implementation will remain difficult: economic restructuring, development of investment opportunities, curtailment of criminality and corruption, business transparency, and the assurance of the rule of law. The pursuit of systemic change will sometimes involve hard policy choices that may be painful for sectors of the public. This is particularly true where state spending will need to be tightly controlled and obsolete loss-making enterprises will need to be sold off or closed down. Unemployment may indeed rise in the short term if the authorities are serious about economic efficiency and long-term growth.

In order to counteract perceptions of economic decline, the government needs to move quickly to stimulate new businesses and encourage fresh foreign investments. A series of measures can be taken to create an appropriate business climate, through the passage of favorable laws, the curtailment of bureaucratic interference, the punishment of corruption and illicit acquisitions, and transparency in the marketization process. Some early indicators of economic success will greatly assure the public that the government is on the right track. The attraction of a handful of foreign investors will create new jobs and opportunities and it will accelerate the process of economic integration with the European community.

On the international front, instead of displaying a suspicious and dismissive approach toward South East European reconstruction, something characteristic of the Tudjman regime, Zagreb should find creative ways to enhance its role. The new government must capitalize on the country's enviable position as a junction between three important European sub-regions. The days of fear, isolationism, and paranoia must finally be over.